UNITED NATIONS

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General Assembly

Distr.
GENERAL

A/C.5/47/8
18 September 1992

ORIGINAL: ENGLISH

Forty-seventh session
FIFTH COMMITTEE
Agenda item 114

UNITED NATIONS PENSION SYSTEM

Investments of the United Nations Joint Staff Pension Fund

Report of the Secretary-General

INTRODUCTION

1. The Secretary-General presents herewith his annual report on the management of the investments of the United Nations Joint Staff Pension Fund (UNJSPF). The investment environment that prevailed in the reporting year ended 31 March 1992 is described and information is provided on the investment returns, portfolio diversification and the development-related investments of the Fund. The data are based on the audited financial accounts for the calendar year and the unaudited appraisals for the quarter ended 31 March 1992. In order to provide the General Assembly with the most timely information available, some data have been updated to 30 June 1992.

I. ECONOMIC AND INVESTMENT CONDITIONS

2. The world-wide economic environment for the year ended 31 March 1992 was characterized by a combination of slowdown in economic growth and recession in major industrialized countries, a general decline in aggregate of interest rates and inflation rates in most countries, volatility in currency exchange rates, lower commodity prices, relatively stable oil and gold prices and continued restructuring of economic systems in Eastern Europe, Latin America and Africa. Most financial markets started on a positive note in April 1991, the beginning of the reporting year, with low interest and inflation rates world wide and declining oil prices. The major factors that caused a slowdown in financial markets towards the end of the period under review were recession in the North American economies, slowdown in economic growth in Japan and in Germany, poor corporate profits in industries such as automobile, manufacturing, real estate and retail, political changes in the former Union of Soviet Socialist Republics and in Eastern Europe, continued political tensions in the Middle East and volatility in exchange rates.

3. In spite of the world-wide economic slowdown, many financial markets experienced stock market gains. In the United States of America, the stock market recorded a gain of 13 per cent during the year under review. In Europe, performance differed considerably between the larger and smaller markets. The larger markets such as France, Germany and the United Kingdom of Great Britain and Northern Ireland experienced gains while the smaller markets declined during most of 1991 with some of them rebounding in the early part of 1992. In the Far East, the Hong Kong market had another impressive year while the Japanese market performed poorly and the other Asian markets turned in a mixed performance. Any gains in these markets in local terms were offset by the strength of the United States dollar against major currencies during the first quarter of 1992.

4. Most of the major bond markets performed well during the year under review, mainly owing to continued decline in bond yields and lower inflation rates. At the end of the reporting period, short-term rates in the United States were at their lowest levels since the early 1970s. In Europe, both short-term and long-term interest rates declined slightly but remained relatively high as the Bundesbank kept interest rates high in Germany.

5. In Latin America, structural reforms have been adopted in almost all countries, transforming the economies into free market economies. This resulted in substantial gains in most of the stock markets of the region. In Africa, severe drought, especially in the southern African countries, strained the economies and caused shortages and higher prices in basic commodities. In Eastern European countries, liberalization and restructuring of economic and political systems continued.

II. INVESTMENT RETURN

6. The market value of UNJSPF assets increased to US$ 10,111 million on 31 March 1992 from $9,338 million a year earlier, an increase of $772 million, or 8.3 per cent, and $771 million above the book value. Over the past 42 years, the total book value of the portfolio rose from $13 million to $9,340 million, a compound increase of about 17 per cent a year. In the 1991 calendar year, investment income from interest and dividends amounted to $557.5 million, an increase of 7 per cent over 1990. The total of new funds that became available for investment amounted to $627.7 million (contributions plus investment income, less benefit payments and investment expenses). Realized capital gains amounted to $199.6 million.

7. The total investment return for the year ended 31 March 1992 was 7.6 per cent, which, after adjusting for inflation, represents a "real" rate of return of 4.3 per cent. The method of calculation of the investment return takes into account actual income received from interest and dividends as well as realized capital gains and losses, and changes in the market value of the investments (unrealized capital gains or losses and exchange rate fluctuations). The impact of the flow of new money into the Fund at different times throughout the year is also incorporated on a pro-rated basis in the calculations. The techniques used in measuring the investment return are in

accordance with the standards used by most pension funds. The calculations of the investment returns for the Fund are carried out by an outside consultant.

8. As the purpose of the Fund is to secure retirement and other related benefits for its participants, the policy of the management of the Fund's investments is geared to preserving the principal of the Fund by maintaining a careful balance between risk and reward. At the same time, the investments are assessed over the medium-term and the longer-term rather than acting on the basis of short-term investment results which are not in themselves particularly meaningful for a fund such as UNJSPF, that has long-term investment objectives and liabilities. Periods of five years or longer are usually considered to be reasonable periods in which to assess the investment results.

9. To provide a longer-term perspective, the annual rates of return over selected periods are shown in table 1 below.

Table 1

Total Fund: compound annual nominal and real rates of return for selected periods to 31 March 1992

(In percentages)

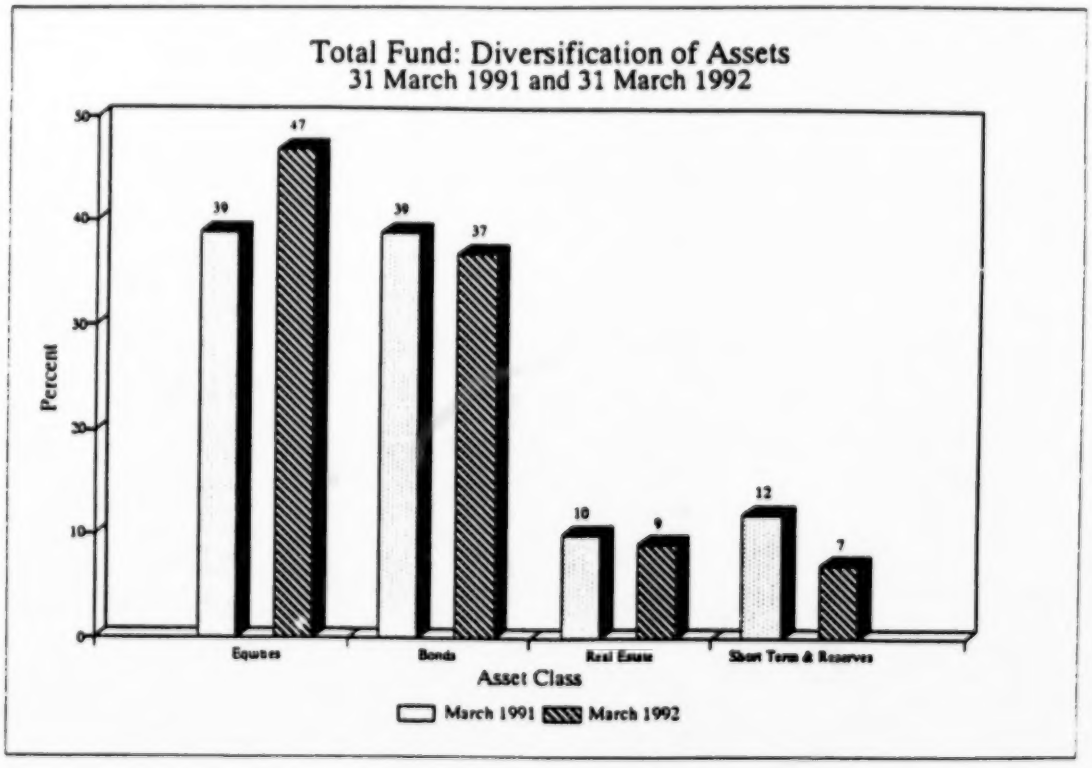
	5 years through 1992	10 years through 1992	15 years through 1992	20 years through 1992	25 years through 1992	32 years through 1992
Nominal	7.4	14.6	12.1	9.3	9.0	8.5
Real (inflation adjusted)	2.8	10.2	5.9	2.8	2.9	3.3

III. INVESTMENT DIVERSIFICATION

10. The policy of broad diversification of the investments by type of security, industry groups, countries and currencies is a basic feature of sound and prudent investment management and has been advocated repeatedly by the Investments Committee, the Pension Board and the General Assembly. 1/ The geographic and currency diversification of the assets of the Fund began in 1960. The Fund remains one of the most diversified pension funds in the world. The proportion of the assets allocated to particular geographic regions, currencies or types of security is based on long-term assessments of economic and financial market environment at the time of decision-making. The proportions are adjusted as new information becomes available to minimize risk and to benefit from new opportunities.

11. The diversification of the portfolio as at 31 March 1992 is detailed in the various tables in the annex to this report. Investments were exposed to 38 different currencies and 47 countries; 55 per cent of the assets were exposed to currencies other than the United States dollar, which is the Fund's unit of account. Of the Fund's investments, 65 per cent were in markets outside the United States. The rise in the relative value of the United States dollar at the end of the period under review influenced the market values of investments outside the United States when expressed in dollars, and has consequently also negatively impacted the positive rates of return in local currencies when expressed in dollar terms.

12. As shown in the chart below, equities constituted 47 per cent of the assets as of 31 March 1992, an increase from 39 per cent for the previous year; 45 per cent of these were in United States equities and 55 per cent in other equity markets. The bond proportion had declined to 37 per cent from 39 per cent, and the breakdown between United States dollar-denominated bonds and other currency bonds was 38 and 62 per cent respectively. Investments in real estate-related securities amounted to 9 per cent of the portfolio, compared with 10 per cent from a year earlier. Short-term investments and reserves, that is, cash and fixed income investments with maturity dates of less than one year, were decreased to 7 per cent from 12 per cent a year earlier. In order to preserve the principal of the Fund, the defensive policy adopted in the mid-1980s was continued but slightly changed. It consisted of increasing holdings in selected equities which appeared undervalued and with potential for future appreciation.



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IV. IMPLEMENTATION OF GENERAL ASSEMBLY RESOLUTIONS

13. In response to the requests of the General Assembly, efforts to increase investments in developing countries continued. As shown in tables 2 and 3 below, the book value of development-related investments increased in total by 7.1 per cent over the last year, from $1,435.2 million to $1,537.6 million as at 30 June 1992. The investments in development institutions amounted to $1,050 million compared with $1,137.2 million a year earlier, a decrease of 7.7 per cent; direct investments in specific developing countries increased by 63.6 per cent to $487.6 million from $298 million. Table 3 shows that the Fund's direct investments and those through regional development institutions in Africa increased by 32.1 per cent to $191.2 million from $144.7 million; Latin America decreased by 14.4 per cent to $270.8 million from $316.3 million, and Asia increased by 46.8 per cent to $583 million from $397.1 million. The combined development-related assets as at 30 June 1992 represented 16.0 per cent of the total book value of the Fund. The progress made over the past five years is shown in table 2 below.

Table 2

Development-related investments (book value) as at 30 June 1992

(In millions of United States dollars)

	1987	1988	1989	1990	1991	1992
Specific countries a/	169.6	195.7	225.0	240.6	298.0	487.6
Development institutions b/	820.9	823.8	909.4	1 036.6	1 137.2	1 050.0
Total	990.5	1 019.5	1 134.4	1 277.2	1 435.2	1 537.6

a/ Includes multi-country funds.

b/ Includes regional and other development institutions.

14. Close contacts are maintained with international organizations, regional development institutions, Governments and private sources to ensure full awareness of all investment opportunities in developing countries. Follow-up missions to Africa, Latin America, the Middle East and Asia were undertaken during the year.

Table 3

Summary of development-related investments (book value)
as at 30 June 1992

(In millions of United States dollars)

	Currencies other than United States dollars: 1992	United States dollars: 1992	Total 1992	Total 1991	% Change
Africa	126.3	64.9	191.2	144.7	32.1
Asia	452.2	130.8	583.0	397.1	46.8
Latin America	148.1	122.7	270.8	316.3	(14.4)
Other development institutions a/	166.1	316.1	482.2	564.6	(14.6)
Multicountry fund	10.4	0.0	10.4	12.5	(16.8)
Total	903.1	634.5	1 537.6	1 435.2	7.1

a/ Includes the World Bank but excludes regional development institutions.

V. CONCLUSION

15. Considering the world-wide slowdown in economic growth, the volatility of the financial markets and fluctuations of exchange rates, the investment return of 7.6 per cent for the year ended 31 March 1992, when measured in United States dollars, was satisfactory. The defensive strategy of taking profits where appropriate and increasing investments in those markets and instruments which performed better contributed to the satisfactory performance of the Fund.

16. The Secretary-General considers the policy of diversification and careful selection of investment instruments, including consistent investigation of opportunities in developing countries, to be the best way to achieve the goal of preserving the principal and enhancing the investment return of the Fund over the medium and long term. He will continue to discharge his fiduciary

responsibilities through investment decisions that adhere to the principles of sound investment management and meet the requirements of safety, profitability, liquidity and convertibility, which have been endorsed by the General Assembly. 2/

Notes

1/ See General Assembly resolution 36/119 of 10 December 1981 and earlier resolutions cited therein.

2/ See A/C.5/32/25.

Annex

TABLE 1

TOTAL FUND: COMPONENTS OF PORTFOLIO (BOOK VALUE AND MARKET VALUE) AS AT 31 MARCH 1992

(In millions of United States dollars and percentages)

	Book value		Market value	
	($m)	(%)	($m)	(%)
Equities				
United States	1 671	17.9	2 115	20.9
Outside United States	2 450	26.2	2 620	25.9
	4 121	44.1	4 735	46.8
Bonds				
United States	1 370	14.7	1 445	14.3
Outside United States	2 267	24.3	2 319	22.9
	3 637	39.0	3 764	37.2
Real estate				
United States	689	7.4	678	6.7
Outside United States	152	1.6	191	1.9
	841	9.0	869	8.6
Short-term investment and reserves				
United States	261	2.8	261	2.6
Outside United States	480	5.1	482	4.8
	741	7.9	743	7.4
Total	9 340	100.0	10 111	100.0

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TABLE 2

TOTAL FUND: COUNTRIES OF INVESTMENT (MARKET VALUE) a/
AS AT 31 MARCH 1992

(In millions of United States dollars)

	Investments in currencies other than United States dollars	Investments in United States dollars	Total
Argentina	5.2	0.0	5.2
Algeria	2.1	3.4	5.5
Australia	257.0	0.0	257.0
Austria	41.1	0.0	41.1
Bahrain	6.0	0.0	6.0
Belgium	135.6	0.4	136.0
Brazil	7.9	0.0	7.9
Canada	669.0	49.0	718.0
Chile	3.4	0.0	3.4
China	40.9	0.0	40.9
Costa Rica	0.0	0.1	0.1
Côte d'Ivoire	0.0	0.0	2.5
Denmark	300.5	9.8	310.3
Finland	8.0	10.1	18.1
France	545.3	16.6	561.9
Germany	418.2	0.0	418.2
Greece	7.6	0.0	7.6
Hong Kong	170.1	0.0	170.1
Hungary	23.3	0.0	23.3
India	48.8	1.5	50.3
Ireland	82.6	0.0	82.6
International institutions	151.3	342.0	493.3
Italy	17.9	50.8	68.7
Japan	971.5	16.0	987.5
Jordan	2.9	0.0	2.9
Kenya	1.1	0.0	1.1
Malaysia	81.1	0.0	81.1
Mexico	67.6	10.3	77.9
Netherlands	250.7	0.0	250.7
New Zealand	63.5	13.2	76.7
Norway	37.7	0.0	37.7
Pakistan	2.4	0.0	2.4
Panama	0.0	0.5	0.5
Philippines	15.9	0.0	15.9
Portugal	29.0	0.0	29.0

TABLE 2 (continued)

	Investments in currencies other than United States dollars	Investments in United States dollars	Total
Regional institutions - Africa	139.4	61.6	201.0
Regional institutions - Europe	43.2	0.0	43.2
Regional institutions - South-East Asia	107.1	80.6	187.7
Regional institutions - Latin America	120.9	119.0	239.9
Republic of Korea	22.9	47.4	70.3
Russian Federation	10.5	0.0	10.5
Singapore	77.5	0.0	77.5
Spain	44.3	0.4	44.7
Sweden	48.2	0.0	48.2
Switzerland	238.7	0.0	238.7
Thailand	0.0	9.2	9.2
Turkey	8.3	0.0	8.3
United Kingdom of Great Britain and Northern Ireland	282.4	66.2	348.6
Venezuela	2.9	0.0	2.9
Zimbabwe	0.0	0.0	0.0
Total outside United States	5 611.5	910.6	6 522.1 (65%)
United States of America	0.0	3 588.7	3 588.7 (35%)
Total Fund	5 611.5	4 499.3	10 110.8 (100%)

a/ Country of investment is generally based on domicile of issuer. Convertible securities are classified according to currency into which they are convertible. Various investment trusts, which trade in currencies other than the currencies of the investments, are classified under the countries.

TABLE 3

TOTAL FUND: CURRENCIES OTHER THAN UNITED STATES DOLLARS a/ (MARKET VALUE) AS AT 31 MARCH 1992

Currency	United States dollar equivalent (millions)	Percentage
Argentine peso	5.2	0.1
Australian dollar	257.1	4.6
Austrian schilling	35.6	0.6
Belgian franc	135.6	2.4
Brazilian cruzeiro b/	7.9	0.1
Chilean new peso b/	3.4	0.1
Canadian dollar	733.4	13.1
Danish krone	294.1	5.2
Deutsche mark	568.2	10.1
European currency unit	4.9	0.1
Finnish markka	8.0	0.1
French franc	592.3	10.6
Greek drachma	7.6	0.1
Hong Kong dollar	170.1	3.0
Hungarian forint	8.0	0.1
Indian rupee b/	28.2	0.5
Irish punt	82.6	1.5
Italian lira	17.9	0.3
Japanese yen	1 116.4	19.9
Jordanian dinar	2.9	0.1
Kenyan shilling	1.1	0.0
Korean won	21.0	0.4
Malaysian ringgit	65.6	1.2
Mexican peso	63.8	1.1
Miscellaneous c/	131.9	2.4
Netherlands guilder	263.8	4.7

TABLE 3 (continued)

Currency	United States dollar equivalent (millions)	Percentage
New Zealand dollar	50.5	0.9
Norwegian krone	37.7	0.7
Pakistani rupee b/	2.4	0.0
Philippine peso	15.9	0.3
Portuguese escudo b/	18.1	0.3
Pound sterling	355.6	6.3
Singaporean dollar	87.3	1.6
Spanish peseta	53.3	1.0
Swedish krona	48.2	0.9
Swiss franc	310.5	5.5
Thai baht	0.0	0.0
Turkish lira	5.4	0.1
Total non-United States dollar	5 611.5	100.0

a/ Convertible securities are classified according to currency into which they are convertible.

b/ The fund's investments are exposed to these currencies through funds that are traded in other currencies.

c/ Includes various investment trusts, which trade in currencies other than the currencies of the investment.

TABLE 4

TOTAL FUND: COMPONENTS OF PORTFOLIO (MARKET VALUE), 1988-1992

(In millions of United States dollars and percentages)

Period ending on:	31/03/88 ($m)	%	31/03/89 ($m)	%	31/03/90 ($m)	%	31/03/91 ($m)	%	31/03/92 ($m)	%
Equities										
United States	1 403	19	1 284	17	1 465	17	1 576	17	2 115	21
Outside United States	1 717	24	1 935	25	1 996	23	2 045	22	2 620	26
	3 120	43	3 219	42	3 461	40	3 621	39	4 735	47
Bonds										
United States	978	14	1 168	16	1 475	17	1 400	15	1 445	14
Outside United States	1 527	20	1 387	18	1 847	22	2 280	24	2 319	23
	2 505	34	2 555	34	3 322	39	3 680	39	3 764	37
Real estate										
United States	603	9	715	9	751	9	736	8	678	7
Outside United States	160	2	198	3	244	3	198	2	191	2
	763	11	913	12	995	12	934	10	869	9
Short-term investments and reserves										
United States	527	8	666	9	384	4	504	5	261	2
Outside United States	314	4	279	3	396	5	599	7	482	5
	841	12	945	12	780	9	1 103	12	743	5
Total	7 229	100	7 632	100	8 558	100	9 338	100	10 111	100
Percentage change from year to year	3.04		5.57		12.13		9.11		8.3	